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31st October & 12th November 2015 Tax Deadline
PENSION ADVISORY SERVICES

An Opportunity to Reduce your 2014 Income Tax Bill

Individuals who both pay and file their tax returns through the Revenue On-line Service (ROS) have until Thursday **12th November 2015** to pay a pension contribution and elect to backdate the income tax relief against the 2014 tax year. Those who do not qualify for the ROS extension must do this by **31st October 2015**.

There is no option to defer. If they do not take this opportunity, they will not get another chance to reduce their 2014 income tax liability.

How Much Can an Individual Contribute to a Personal Pension, PRSA, PRSA AVC or AVC?

For contributions paid in 2015 and set against 2014 earnings, an earnings cap of €115,000 applies for tax relief purposes to total contributions to PRSAs, personal pensions and employee / AVC contributions to occupational pension schemes.

Age	% of Earnings
Under 30	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 and over	40%

Note:

1. The above limits include any employer contributions to a PRSA
2. The earnings limit does not apply to employer contributions to occupational pension schemes
3. For occupational pension schemes the total contributions (employer, employee & AVC) must be within overall Revenue maximum contribution limits

Who Files a Self-Assessment Tax Return?

The self-employed, proprietary directors (those who own more than 15% of a company) and people with non-PAYE income are required to file self-assessment tax returns under the Pay and File system with Revenue.

To avoid interest and surcharges they must by 31st October / 12th November 2015

- File their 2014 Income Tax Return
- Pay any balance of income tax outstanding for 2014
- Pay preliminary income tax for 2015

Employees and directors in occupational pension schemes can also reduce their 2014 tax bill if they pay an AVC single premium on or before 31st October 2015 and file a return by 31st October 2015.

Filing Returns Electronically: Certain individuals are required to file their tax returns electronically through the ROS system. These include self-assessed individuals claiming income tax relief on personal pension, PRSA or AVC contributions as well as those claiming other reliefs such as artists' exemption, woodlands exemption, patent income exemption etc. Revenue wrote to affected clients and tax agents when this change was first introduced. More information can be found on the Revenue's website www.revenue.ie.

Those affected should ensure they are registered on for ROS so they can claim all reliefs they are entitled to.

Is anything needed from Irish Life to show the pension contribution was paid before the Tax Deadline?

No. Revenue does not require individuals to submit Tax Certificates with their final tax returns. Revenue does however reserve the right to request them at any stage in the future. Irish Life will send a RAC / PRSA or PRSA AVC Certificate to clients. These documents should be kept in case they are requested by Revenue at a later date.

Summary of Backdating of Income Tax Relief

	Income Tax Relief
When do I make a claim?	Must elect to backdate pension contribution by **31st October 2015** for 2014 tax year. Extension to **12th November 2015** for those who pay and file using Revenue On-Line Service (ROS)
What do I send to make a claim?	**Self Employed and Proprietary Directors** (more than 15%) need to complete Income Tax Form 11 or the shorter version Form 11E. **PAYE Employees** (including non-proprietary directors) need to complete Income Tax Form 12. This can also be done online through PAYE Anytime using eForm 12 or by their tax agents through ROS. Clients should **not** include RAC / PRSA or PRSA AVC Certificates with their self-assessment tax return. Clients should instead retain supporting documents, accounts, certificates, etc. in case they are subsequently requested by Revenue as part of an audit at a later date.
How do I make a claim?	**Self Employed and Proprietary Directors** will have to file their returns using ROS if they are looking to claim income tax relief on pension contributions. **PAYE Employees** not filing online should send their income tax form to their local Revenue office. See www.revenue.ie for more information.

Backdating of Income Tax Relief – Personal Pension Plans (RACs), PRSAs, AVCs

A person who wishes to pay a pension contribution now and backdate relief against their 2014 income needs to do the following

1. Pay the contribution to the life office or PRSA provider on or before the return filing date (i.e. 31st October or 12th November 2015).
2. Submit their tax return to Revenue on or before the return filing date (i.e. 31st October or 12th November 2015).

If there is any doubt on qualifying for the ROS extension we would recommend individuals pay their pension contributions and file their tax return by 31st October to ensure they meet the deadline.

Late Returns – Tax Relief disallowed: Revenue will not permit tax relief to be granted in the previous tax year if the client has not elected to claim the tax relief in that tax year in his tax return, or if he has not filed the tax return on time. This applies even if the pension contribution was paid by 31st October 2015.

Revenue has made an exception for employees who are not normally self-assessed where they:

- Pay a contribution by 31st October 2015, and
- Retire in the year in which the contribution was made i.e. retire in 2015
- File a return and elect to backdate the contribution on or before 31st December 2015

If the above conditions are met the income tax relief against 2014 can be claimed.

If a client is not eligible for tax relief for any reason this is not grounds for a refund of contributions. If tax relief cannot be claimed currently, then the client can carry the relief forward, and may be eligible to claim relief against relevant earnings in the future.

Who can claim Income Tax Relief on Personal or PRSA Contributions?

In order to claim income tax relief on contributions to a personal pension or PRSA the individual must be "chargeable to tax in respect of relevant earnings". Relevant earnings refers to income of individuals who are:

- **Self-employed** (income from a trade or profession taxed under Schedule D, Case I or II)
- **Employees** (Schedule E, PAYE and **not** a member of a company pension scheme)
- **Directors of companies** (Schedule E, PAYE and **not** a member of a company pension scheme)

Net relevant earnings are relevant earnings less charges in income (e.g. covenant payments, tax deductible maintenance payments, allowable interest) and losses or capital allowances related to the individual's relevant earnings.

Income which is not relevant earnings include:

- Investment income (e.g. rental income)
- Sleeping partner
- Earnings from an investment company where the client directly or in directly controls more than 20% or the company
- Pension income
- Spouse's income, you cannot take out a pension for your spouse's income

Can Employees Backdate Income Tax Relief on AVCs or PRSA AVCs?

Yes. AVCs or PRSA AVCs paid before 31st October 2015 can be backdated against income tax paid in 2014 provided the individual is **still in the same employment**.

An employee has until 31st October 2015 to:

1. Pay a single premium AVC to their main company pension scheme (if the scheme offers this option), a PRSA AVC or through their existing AVC plan (if they have one), and claim income tax relief for 2014 tax year.
2. Send their tax return to Revenue, electing to backdate the pension contribution to 2014 tax year

If an employee elects to backdate a contribution to a previous tax year he needs to make sure that relief has not already been given in the current tax year. Where the contribution is paid through payroll under the net pay arrangement income tax relief is automatic and is given in the current tax year.

Who can claim Income Tax Relief on AVCs or PRSA AVCs?

Income tax relief on AVCs or PRSA AVCs can be claimed by individuals who are:

- **Employees** (Schedule E, PAYE and a member of a company pension scheme)
- **Directors of companies** (Schedule E, PAYE and a member of a company pension scheme)

Examples of Schedule E income would include salary, bonuses and benefit-in-kind (BIK).

Where a client has changed employment this may affect their ability to make a pension contribution and backdate the tax relief to the previous year. **Once a client leaves an employment where they were a member of a company pension scheme, they cannot make any further pension contributions in respect of the earnings from that employment.**

Note: a termination payment made to a client on leaving employment (taxed under S123 of TCA 1997) would not be considered remuneration for pension purposes. This would include termination payments on redundancy, payment in lieu of notice and other ex-gratia payments. However, part or all of such a termination payment may qualify for tax relief under other available exemptions.

Earnings Limit – Those with more than one source of income

Tax relief on pension contributions are subject to two limits:

1. The age related percentage of salary as shown on page 1
2. The earnings limit which is set at €115,000 for the 2014 and 2015 tax years

Where someone has two sources of earnings, one from an office of employment where they are a member of a contributory occupational pension scheme (pensionable employment) and the other either non-pensionable or from self-employment, the pensionable earnings uses up the earnings limit first.

Example 1– Pensionable earnings greater than the €115,000 earnings limit:

John aged 45 earns €150,000 from his employment. He is a member of his employer's occupational pension scheme; where he pays an employee contribution of 5% of his salary (€7,500). John also has self-employed earnings of €45,000.

Based on his age the maximum contribution John can make to the occupational pension scheme and claim tax relief is 25% of his earnings, capped at €115,000. So John's maximum pension contribution is 25% x €115,000 = €28,750. He is already contributing €7,500 so has scope to pay AVCs of up to €21,250.

John's pensionable income uses up the earnings limit first and as that income is greater than the earnings limit he cannot claim tax relief against any personal pension or PRSA contributions made in respect of his self-employed earnings. This applies even if he does not maximise his AVCs to the company pension scheme.

Example 2 – Total Income over the €115,000 earnings limit:

Tom aged 45 earns €80,000 from his employment where he is a member of an occupational pension scheme, and he pays 5% of salary (€4,000) as an employee contribution. Tom also has self-employed earnings of €55,000.

Based on his age the maximum contribution Tom can make to the occupational pension scheme and claim tax relief is 25% of his salary i.e. 25% x €80,000 = €20,000. He is already paying employee contributions of €4,000 so he has scope to make further AVCs of €16,000.

Tom's pensionable employment uses up the earnings limit first, so he can only make pension contributions against €35,000 of his self-employed earnings i.e. €115,000 - €80,000 = €35,000. So the maximum pension contribution he can pay and claim tax relief on against his self-employed earnings is 25% x €35,000 = €8,750. This applies even if he does not maximise his AVCs to the company pension scheme.

Example 3 – Total Income less than €115,000 earnings limit:
Where an individual's total income is less than €115,000 then the there is no impact on the pension contributions that can be paid against the non-pensionable / self-employed earnings (within the normal tax relief limits).

Kate aged 50 earns €30,000 from her employment and where she is a member of a company pension scheme to which she contributes 5% of salary (€1,500). She also has self-employed earnings of €60,000.

Based on her age the maximum she can contribute to the company pension scheme and claim income tax relief is 30% of salary i.e. 30% x €30,000 = €9,000. She is already paying an employee contribution of €1,500 so has scope to make AVCs of up to €7,500.

As her total earnings are less than €115,000, the earnings limit has no impact on the personal pension or PRSA contribution she can pay against her self-employed earnings, which based on age would be 30% x €60,000 = €18,000.

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